

6-2004

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Recommended Citation

Ahmed, M.Y. (2004). Implications of the monetisation of civil service fringe benefits on the 2004 federal government budget. *CBN Bullion*, 28(2), 49-52.

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IMPLICATIONS OF THE MONETISATION OF CIVIL SERVICE FRINGE BENEFITS ON THE 2004 FEDERAL GOVERNMENT BUDGET

By

Alhaji (Dr.) Mahmud Yayale Ahmed,*

Introduction

I wish to thank the organisers of this seminar which aims at putting the policies enunciated by the Federal Government in the 2004 Budget under informed scrutiny. Such an x-ray of the policy direction of the Budget would assist the ordinary members of the public in appreciating what the Budget holds for them and at the same time draw the attention of policy makers to whatsoever gaps may exist in the Budget with a view to closing them where possible.

I think most people are agreed that, for sometime, the annual Federal Government Budget, which is expected to chart the course of economic direction, has not been able to do so optimally. Two major constraints have come to

plague the efficacy of the Budget in this regard. The first is the quantum of available resources which has always fallen short of what is required to meet what could be described as the minimum responsibility of government. The second, which probably bears "a chicken and egg" relationship with the first, is our inability to properly prioritize or sequence the identified responsibility in line with available resources so as to expend the resources in a manner that assures the greatest impact on the targeted areas. Hidden in between the twin constraints mentioned above are avoidable wastes and sometimes duplications which further lengthen the gap between budget objectives and budget achievements.

One of the main objectives of the on-going economic reforms therefore, is to promote greater convergence between the planned objectives of the Budget and the implemented outcomes. The 2004 Budget is being held

out as the flagship of the efforts to achieve such a convergence.

In the 2004 Budget therefore, government attempts to minimise, if not eliminate, virtually all the known areas of waste and leakages which had worked to undermine the realisation of the objectives of previous Budgets.

One area where such avoidable waste has been identified, is the body of benefits which hitherto were being provided in kind to public officers. The major pitfall of the previous method of providing such benefits in kind has been the great mismatch between the amounts spent and the actual benefits that accrued to the beneficiaries. The result has been that the interest of both the government and that of the beneficiaries were not being significantly served. Government has therefore, starting with the 2004 Budget, decided to monetize the benefits.

The implementation of the

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monetization of the benefits in the 2004 Budget is being made applicable only to the Executive and the Legislative arms of the Government. Even in the executive arm, it is being restricted to the core civil service with the aim of extending it to the rest of the public service in subsequent years. This would enable government to learn the necessary lessons inherent in the change, with a view to avoiding its weaknesses when extending it to the rest of the public service. It will also enable government to take the peculiarities of certain professional groups and services into consideration when making the scheme a public-service-wide phenomenon.

WHAT IS MONETIZATION?

For the purpose of this discussion, "Monetization can be defined as the conversion of benefits previously made available in kind to public officers into cash payment". These benefits, hitherto made available by government to public officers include the provision of free accommodation and its maintenance, furniture, transportation, and chauffeur driven vehicles for top public office holders. There are other benefits that were already being paid in cash to the

entitled officers. These include payments for utilities in the official residence or quarters, meal subsidy, domestic servants allowance, leave grant and medical allowance on a reimbursable basis.

With the monetization policy introduced in the 2004 Budget, some of the benefits have been abolished, some are modified, while monetary value are attached to the remainder and paid out to the officers based on their status. For example, entertainment allowance for senior public officers is abolished. The cost of medical treatment which hitherto was being reimbursed, is now to be paid out at the rate of 10% of an officer's basic salary. In order to cushion the rigours of this particular policy in the case of expensive and serious ailments, the cost of treatment for a diagnosed life threatening illness is still payable by government, although in lieu of the newly introduced medical allowance during the period of such illness.

IMPACT OF MONETIZATION ON THE BUDGET

Let me at this stage draw a balance sheet of the gains and losses accruing to government and, ipso facto, the 2004 Budget, from the

new policy, using the pre-2004 position as the platform. It is the net gain or losses that would impact on the implementation of the 2004 Budget.

INFLOW/SAVINGS OF CASH

- Proceeds of sale of properties previously used as official Accommodation.
- Proceeds of sale of furniture in the furnished quarters.
- Stoppage of rent payment on rented properties.
- Limits on payments for utilities and domestic servants.
- Proceeds of sale of vehicles.
- Embargo on purchase of vehicles.
- Replacement of provision for drivers with cash allowances.
- Limits on payments for fueling and maintenance of vehicles.

OUTFLOW OF CASH

- Net increase in the provision for rent allowance.
- One time cost of renovating rented properties being returned to landlords.

- Clearing of rent arrears.
- Upfront lump-sum advance to staff to facilitate rent payment.
- Payment of gratuities and pensions to drivers being laid off.

One needs to realize that the proceeds from the sale of properties previously used as quarters, as well as from the disposal of the furniture therein, may not accrue immediately or even during 2004. It is difficult to say precisely the exact increase or decrease in cost arising from the introduction of the monetization policy since the expenditures on most of the affected benefits were hitherto being paid from the overhead vote. For example, the total cost for medical allowance for the core civil service in 2004 is estimated at N2.1 billion. Since medical expenses were previously paid out from the overhead vote, it is difficult to say whether or not the provision in the 2004 Budget included a net loss or gain. There are a few other benefits whose costs remained the same as before the 2004 Budget. These include items such as meal subsidy and allowances for domestic staff. Some items of benefit necessarily involves higher

expenditure in the 2004 Budget than in previous years. Take accommodation allowance, for example. The budgetary estimate for the item for the core civil service in 2003 was N8.422 billion, while the estimated cost of the item in the 2004 Budget is N12,088 billion, a net impact of N3,666 billion. Prior to 2004, transport allowance at 10% of basic pay, was about N2.1 billion per annum, but that figure excluded the amount spent for the top civil servants whose official vehicles were fueled and maintained by the Government. In the 2004 Budget, at 25% of basic pay, a provision of N5.3 billion is made for the item in respect of the core civil service. The net impact is therefore less than N3.2 billion, since the pre-2004 cost excluded expenditures on top civil servants' transportation. Government used to furnish the official quarters of civil servants on Grade Levels 07 and above, but with monetization, a provision of 40% of basic salary i.e N5.4 billion is included in the 2004 Budget.

Certain items of cost have disappeared from the 2004 Budget. These include capital provisions for the purchase of cars and renovation of staff quarters

which together cost about N7 billion in 2003. Monetization has made budgetary provisions for them unnecessary in 2004. On the other hand, the 10% employer's contribution to medical insurance, which is estimated to cost N2.1 billion is provided for in 2004 as a new item that had not featured in previous budgets. All told, it is estimated that the total cost of the monetization policy in the 2004 Budget is about N3.542 billion per month, or about N42.5 billion for the whole year. As I said earlier, since part of the expenditures on a number of the items were hidden under various expenditure heads in previous years, the overall amount stated above represents not a net, but a gross impact on the 2004 Budget.

EFFECT OF MONETIZATION ON BENEFICIARIES

The essence of monetization is to lower the financial cost of governance. While its introduction could increase the associated financial cost in 2004 due to the fact that inflows from the disposal of certain capital items would take some longer time to be realised, it is expected to lead to substantial financial savings in subsequent years, thereby achieving its

core objective of contributing to the reduction in the cost of governance. It would also assist in reducing the waste, if not the fraudulent practices, associated with the system of providing some of the benefits in the past.

It must be realized however, that the cost of some of the benefits that will no longer be provided by the government will have to be made good by the erstwhile beneficiaries. Also, the amounts being paid out for the monetized items are set at less than their market value. While such a measure would exert some downward pressure on the market price of the items, the reduction in price may not be as much as to bring the overall cost down to the level of the allowance now being paid to the beneficiaries in that regard. The beneficiaries would therefore have to come up with the shortfalls. It is necessary to realize the burden inherent in the transfer of part of such costs to the erstwhile beneficiaries, since the issue may need to be taken into consideration in subsequent years.